

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

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| UNITED STATES OF AMERICA | : | CRIMINAL NO. <u>08-</u> |
| v. | : | DATE FILED: <u>September 25, 2008</u> |
| JAMES MANNION | : | VIOLATIONS: |
| CARLA WALTMAN | : | |
| DELBERT WOODWARD, | : | 18 U.S.C. § 371 (conspiracy - 1 count) |
| a/k/a “Chip” | : | 18 U.S.C. § 1001 (false statements - 5 |
| | : | counts) |
| | | 18 U.S.C. § 2 (aiding and abetting) |

INDICTMENT

COUNT ONE

THE GRAND JURY CHARGES THAT:

INTRODUCTION

At all times material to this indictment:

The Defendants

1. Defendant JAMES MANNION was president of the Harrison Career Institute (“HCI”), a for-profit proprietary school. Defendants CARLA WALTMAN and DELBERT WOODWARD, a/k/a “Chip,” reported directly to defendant MANNION. Among other things, defendant MANNION supervised and directed all aspects of the business operations of HCI, including compliance.

2. Defendant CARLA WALTMAN was the director of HCI’s internal audit team. Defendant WALTMAN audited student files primarily out of an office in Kingston, Pennsylvania, but also on-site at various schools, including in Philadelphia, Pennsylvania. Among other things, defendant WALTMAN supervised and directed other employees in all aspects of the internal audit of student files.

3. Defendant DELBERT WOODWARD was HCI's director of financial aid.

Among other things, defendant WOODWARD participated in auditing of student files.

Harrison Career Institute

4. HCI, which was founded in 2000, offered vocational training for adult students in the business and medical fields and was owned by H.C., a person known to the grand jury.

5. HCI was headquartered in Voorhees, New Jersey, and consisted of approximately fourteen schools in Delaware, Maryland, New Jersey, and Pennsylvania. One of these schools was located at 1619 Walnut Street in Philadelphia, Pennsylvania.

The Department of Education's Student Financial Aid Programs

6. The United States Department of Education's mission was to ensure equal access to education and to promote educational excellence throughout the United States. One of the primary responsibilities of Department of Education was to ensure the proper administration of the Federal Student Aid ("FSA") programs authorized by the Title IV of Higher Education Act of 1965 ("Title IV"), as amended. The Department of Education administered its FSA programs through participating schools to eligible students. Schools that participated in the FSA programs, such as HCI, were responsible to the Department of Education, and to their students, for the proper use of and accounting for these federal FSA funds.

7. The Department of Education required every school that sought to participate in FSA programs to enter into a Program Participation Agreement with the Department of Education, under which the school agreed to comply with all eligibility, disbursement, refund, and general program requirements.

8. In 2000, H.C. entered into Program Participation Agreements with the Department of Education for all HCI school locations. The Program Participation Agreements required HCI to comply with all applicable rules and regulations governing Title IV programs. As an HCI officer, defendant JAMES MANNION was required to ensure the proper use of all federal funds.

9. HCI was eligible to receive two types of federal FSA funds, Pell Grants and Direct Loans funds. The Federal Pell Grant Program provided financial aid to the most needy post-secondary students who qualified for assistance to meet the high costs of attaining a post-secondary education. Student recipients did not have to repay Pell Grants. The Federal Direct Loan Program provided similar financial aid in the form of loans, both subsidized and unsubsidized, which, unlike the grants, did have to be repaid by the borrower. Students applied for the financial aid and were awarded aid according to their eligibility and need. The grants and loans were eventually advanced to the educational institution in which the student was enrolled.

10. HCI submitted requests for disbursement of Pell Grant and Direct Loan funds, and accompanying data, for its students. The Department of Education disbursed Pell Grants and Direct Loan funds to HCI in the amounts of approximately \$17 million for the 2001-02 school year, \$21 million for the 2002-03 school year, \$26 million for the 2003-04 school year, and \$23 million for the 2004-05 school year.

11. The Department of Education imposed eligibility requirements on student applicants seeking Title IV funds. A student was required to complete and submit to the Department of Education a Free Application for Federal Student Aid (“FAFSA”), which contained information about the student’s income and assets. The information on the FAFSA

was the basis for determinations about the student's eligibility to receive Title IV financial aid.

12. The Department of Education used a verification process, administered through the participating school, to check the truthfulness and validity of information that a student provided in a FAFSA. If a student was selected for this verification, HCI was required to compare information from the student's FAFSA with signed copies of the student's or his or her parent's tax forms. At HCI, the file of a student selected for verification would contain a completed verification worksheet signed by the student, along with signed tax forms. According to federal regulations and HCI policy, if the verification process was not completed, the student was not entitled to any Pell Grants or Direct Subsidized Loans. In such a case, any Pell Grants or Direct Subsidized Loans already disbursed had to be returned to the Department of Education.

13. If a student withdrew from HCI prior to completing sixty percent of the course, federal regulations required HCI to return to the Department of Education, within thirty days, a portion of the Title IV funds. If refunds were submitted beyond the thirty-day period, HCI could incur penalties, including but not limited to interest, fines, increased Department of Education scrutiny, and ultimately termination from the Title IV programs.

14. HCI, consistent with federal rules and regulations, authorized students to take leaves of absence from the school. A student seeking a leave of absence was required to provide a written, signed, and dated request, stating the reason for the request. A legitimate leave of absence request tolled the time in which any refund was due to the Department of Education for the duration of that leave of absence.

15. To ensure its effective administration of Title IV rules and regulations, the Department of Education required all participating schools to undergo an annual financial and

compliance audit by an independent auditor. The independent auditor was required to report to the Department of Education any instances of noncompliance with Title IV rules and regulations. The Department of Education also relied on the school to honestly administer Title IV funds, maintain accurate documents and records, and to provide truthful information to the school's auditor in its yearly financial and compliance audits.

16. HCI retained the accounting firm of Baratz & Associates, P.A., in Marlton, New Jersey, to conduct audits on HCI for the years 2000 through 2003. HCI prepared a list of students receiving Title IV funds from which Baratz & Associates would select a portion to review. For these years, Baratz & Associates reported that HCI complied, in all material respects, with Title IV rules and regulations. Still, Baratz & Associates found instances of noncompliance, including findings of late refunds for the award years 2000, 2001, and 2002. Specifically, in 2000, there were sixteen late refunds, and the Department of Education therefore required HCI to post \$130,000 in surety through a letter of credit.

17. The Department of Education advised HCI that repeat findings of noncompliance could lead to an adverse administration action, such as the imposition of a fine, or the limitation, suspension, or termination of the eligibility of the school to receive Title IV funds.

18. The Department of Education could conduct a Program Review to ensure that a school complied with statutory and regulatory requirements. A Program Review typically consisted of an on-site visit by federal auditors to review student records. The Department of Education initiated a Program Review of HCI in July 2003.

THE CONSPIRACY

19. From in or about October 2001 through in or about August 2005, in the

Eastern District of Pennsylvania and elsewhere, defendants

**JAMES MANNION,
CARLA WALTMAN, and
DELBERT WOODWARD,
a/k/a “Chip,”**

conspired and agreed, together and with others known and unknown to the grand jury to:

(a) knowingly conceal, cover up, falsify, and make a false entry in any record, document, or tangible object, with the intent to impede, obstruct, and influence the investigation and proper administration of a matter within the jurisdiction of the Department of Education, an agency of the United States, in violation of Title 18, United States Code, Section 1519;

(b) intentionally deceive or defraud the United States, and to endeavor to influence, obstruct, and impede a federal auditor in the performance of official duties relating to a person, entity, and program receiving in excess of \$100,000, directly and indirectly, from the United States in any one-year period under a Program Participation Agreement between HCI and the Department of Education, in violation of Title 18, United States Code, Section 1516;

(c) knowingly and willfully falsify, conceal, and cover up by any trick, scheme, or device material facts, in that defendants falsely and fraudulently represented to the Department of Education that students were eligible to receive federal financial aid, and by fabricating student records and falsifying student documents, including Verification Worksheets, tax forms and leave of absence documents, in violation of Title 18, United States Code, Section 1001; and

(d) knowingly and willfully misapply, obtain by fraud, false statement or forgery, destroy or conceal any record, and fail to refund any funds, assets, or property exceeding \$200 provided by the United States Department of Education, that is Pell Grants and Direct

Loans, by creating false Verification Worksheets and tax documents, by fabricating leave of absence requests, and by forging student signatures on these documents, in violation of Title 20, United States Code, Sections 1097(a) and (d).

MANNER AND MEANS

It was part of the conspiracy that:

20. On a regular basis, and in anticipation of the annual independent audit by Baratz & Associates, and of the Department of Education's Program Review in July 2003, defendants JAMES MANNION, CARLA WALTMAN, and DELBERT WOODWARD created and authorized, and directed others at HCI to create, fabricated documents in student files to make the files appear compliant with federal regulations, when in fact, as the defendants knew, those files did not comply with federal regulations, as follows:

(a) Defendants fabricated and authorized the fabrication of change of status forms and leave of absence requests for the purpose of concealing the tardy status of refunds owed to the Department of Education, and to make those refunds appear timely and compliant with federal rules and regulations;

(b) Defendants fabricated and authorized the fabrication of verification worksheets, tax returns and tax forms, for the purpose of making the student file appear compliant with federal rules and regulations; and

(c) Defendants fabricated or authorized the fabrication of other documents in student files, and signed student names on such documents without the students' knowledge and consent, including but not limited to FAFSA forms, entrance and exit interviews, drug prevention certificates, and loan documents, for the purpose of making the student files appear compliant with federal rules and regulations.

21. Defendant JAMES MANNION manipulated the student population list of HCI students receiving Title IV funds before providing it to the independent auditor in order to conceal certain student files that contained problems with disbursements, timely refunds, and missing documentation, that may have resulted in findings of noncompliance.

OVERT ACTS

In furtherance of the conspiracy, defendants JAMES MANNION, CARLA WALTMAN, and DELBERT WOODWARD, and others known and unknown to the grand jury, committed the following overt acts in the Eastern District of Pennsylvania, and elsewhere:

1. In or around June 2003, defendants JAMES MANNION and CARLA WALTMAN deceived HCI's independent auditor during the annual compliance audit for award year 2002, by providing the independent auditor with at least two falsified documents, that being a Verification Worksheet and tax document for a student known to the grand jury as O.C.

2. Defendants JAMES MANNION, CARLA WALTMAN, and DELBERT WOODWARD fabricated and directed others to fabricate, and authorized the fabrication of, the following materials, each fabrication constituting an overt act:

| Overt Act | Approximate Date | Student Initials | School Location | Fraudulent Act |
|------------------|-------------------------|-------------------------|------------------------|--|
| 2A | March 2002 | D.S. | Wilmington, DE | fabricated verification worksheet |
| 2B | March 2002 | R.G. | South Orange, NJ | fabricated tax document |
| 2C | April 2002 | A.R. | Allentown, PA | fabricated tax document |
| 2D | November 2002 | R.G. | South Orange, NJ | fabricated tax document |
| 2E | February 2003 | O.C. | Deptford, NJ | fabricated verification worksheet and tax document |
| 2F | March 2003 | D.B. | Philadelphia, PA | fabricated leave of absence request |
| 2G | March 2003 | T.W. | Philadelphia, PA | fabricated leave of absence request |
| 2H | April 2003 | Z.B. | Philadelphia, PA | fabricated leave of absence request |
| 2I | April 2003 | S.C. | Philadelphia, PA | fabricated leave of absence request |
| 2J | April 2003 | E.S. | Philadelphia, PA | fabricated verification worksheet |
| 2K | April 2003 | L.H. | Philadelphia, PA | fabricated verification worksheet and tax document |
| 2L | April 2003 | K.W. | Philadelphia, PA | fabricated leave of absence request |
| 2M | September 2003 | Z.B. | Philadelphia, PA | fabricated leave of absence request |
| 2N | November 2003 | K.W. | Philadelphia, PA | fabricated leave of absence request |
| 2O | November 2003 | D.B. | Philadelphia, PA | fabricated leave of absence request |
| 2P | November 2003 | T.W. | Philadelphia, PA | fabricated leave of absence request |
| 2Q | January 2004 | S.C. | Philadelphia, PA | fabricated leave of absence request |
| 2R | April 2004 | M.Z. | Philadelphia, PA | fabricated tax document |

All in violation of Title 18, United States Code, Section 371.

COUNT TWO

THE GRAND JURY FURTHER CHARGES THAT:

1. Paragraphs One through Eighteen of Count One of this indictment are incorporated by reference.

2. On or about November 11, 2003, in Philadelphia, in the Eastern District of Pennsylvania, and elsewhere, defendant

JAMES MANNION,

in a matter within the jurisdiction of the United States Department of Education, an agency of the executive branch of the United States, knowingly and willfully made materially false, fictitious, and fraudulent statements and representations, and made and used a false writing and document knowing that the writing and document contained materially false, fictitious, and fraudulent statements and representations, and aided and abetted the making of such statements and misrepresentations, and the making and use of such false writing and document, in that defendant MANNION falsely stated that K.W., a student at Harrison Career Institute, had taken an authorized leave of absence and prepared a document stating that K.W. had done so, when, as defendant MANNION knew, K.W. had not taken an authorized leave of absence.

In violation of Title 18, United States Code, Sections 1001 and 2.

COUNT THREE

THE GRAND JURY FURTHER CHARGES THAT:

1. Paragraphs One through Eighteen of Count One of this indictment are incorporated by reference.

2. On or about November 11, 2003, in Philadelphia, in the Eastern District of Pennsylvania, and elsewhere, defendant

JAMES MANNION,

in a matter within the jurisdiction of the United States Department of Education, an agency of the executive branch of the United States, knowingly and willfully made materially false, fictitious, and fraudulent statements and representations, and made and used a false writing and document knowing that the writing and document contained materially false, fictitious, and fraudulent statements and representations, and aided and abetted the making of such statements and misrepresentations, and the making and use of such false writing and document, in that defendant MANNION falsely stated that D.B., a student at Harrison Career Institute, had taken an authorized leave of absence and prepared a document stating that D.B. had done so, when, as defendant MANNION knew, D.B. had not taken an authorized leave of absence.

In violation of Title 18, United States Code, Sections 1001 and 2.

COUNT FOUR

THE GRAND JURY FURTHER CHARGES THAT:

1. Paragraphs One through Eighteen of Count One of this indictment are incorporated by reference.

2. On or about November 11, 2003, in Philadelphia, in the Eastern District of Pennsylvania, and elsewhere, defendant

JAMES MANNION,

in a matter within the jurisdiction of the United States Department of Education, an agency of the executive branch of the United States, knowingly and willfully made materially false, fictitious, and fraudulent statements and representations, and made and used a false writing and document knowing that the writing and document contained materially false, fictitious, and fraudulent statements and representations, and aided and abetted the making of such statements and misrepresentations, and the making and use of such false writing and document, in that defendant MANNION falsely stated that T.W., a student at Harrison Career Institute, had taken an authorized leave of absence and prepared a document stating that T.W. had done so, when, as defendant MANNION knew, T.W. had not taken an authorized leave of absence.

In violation of Title 18, United States Code, Sections 1001 and 2.

COUNT FIVE

THE GRAND JURY FURTHER CHARGES THAT:

1. Paragraphs One through Eighteen of Count One of this indictment are incorporated by reference.

2. On or about January 20, 2004, in Philadelphia, in the Eastern District of Pennsylvania, and elsewhere, defendant

JAMES MANNION,

in a matter within the jurisdiction of the United States Department of Education, an agency of the executive branch of the United States, knowingly and willfully made materially false, fictitious, and fraudulent statements and representations, and made and used a false writing and document knowing that the writing and document contained materially false, fictitious, and fraudulent statements and representations, and aided and abetted the making of such statements and misrepresentations, and the making and use of such false writing and document, in that defendant MANNION falsely stated that S.C., a student at Harrison Career Institute, had taken an authorized leave of absence and prepared a document stating that S.C. had done so, when, as defendant MANNION knew, S.C. had not taken an authorized leave of absence.

In violation of Title 18, United States Code, Sections 1001 and 2.

COUNT SIX

THE GRAND JURY FURTHER CHARGES THAT:

1. Paragraphs One through Eighteen of Count One of this indictment are incorporated by reference.

2. On or about April 2, 2004, in Philadelphia, in the Eastern District of Pennsylvania, and elsewhere, defendant

JAMES MANNION,

in a matter within the jurisdiction of the United States Department of Education, an agency of the executive branch of the United States, knowingly and willfully made materially false, fictitious, and fraudulent statements and representations, and made and used a false writing and document knowing that the writing and document contained materially false, fictitious, and fraudulent statements and representations, and aided and abetted the making of such statements and misrepresentations, and the making and use of such false writing and document, in that defendant MANNION falsely stated that M.Z., a student at Harrison Career Institute, had completed verification and provided a tax document, that is, a 1040 Income Tax Return, containing M.Z.'s income, tax and credits, and tax refund, when, as defendant MANNION knew, M.Z. had not completed verification and had not provided the tax document.

In violation of Title 18, United States Code, Sections 1001 and 2.

A TRUE BILL:

GRAND JURY FOREPERSON

LAURIE MAGID
Acting United States Attorney